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BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

In the Matter of the Application of San Diego Gas & Electric Company (U 902 G) and Southern California Gas Company (U 904 G) for Authority to Integrate Their Gas Transmission Rates, Establish Firm Access Rights, and Provide Off-System Gas Transportation Services.	A.04-12-004 (Filed December 2, 2004)

REPLY COMMENTS OF SAN DIEGO GAS & ELECTRIC COMPANY (U 902 G) AND SOUTHERN CALIFORNIA GAS COMPANY (U 904 G)

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AND SOUTHERN CALIFORNIA GAS COMPANY (U 904 G)

In accordance with Rule 14.3(d) of the Commission's Rules of Practice and Procedure, San Diego Gas & Electric Company (SDG&E) and Southern California Gas Company (SoCalGas) hereby submit their reply comments. It is not possible in the brief space allotted to reply comments to address the many erroneous claims made by parties opposing FAR or the peaking rate. Comprehensive responses to each misstatement and flawed argument are provided in the opening and reply briefs of SDG&E and SoCalGas. SDG&E and SoCalGas do, however, respond herein to certain statements by parties in their Opening Comments (OC).

The strong majority of OC urged that the PD (or APD) be adopted with revisions, recognizing the value of firm access rights (FAR). The Commission therefore should adopt the PD with the modifications in Appendix "A" of SDG&E/SoCalGas' OC.

FAR opponents seem surprised that the PD would adopt FAR, ignoring the fact that firm, tradable rights have long been the policy of this Commission. As the PD notes, such rights were adopted for Pacific Gas and Electric Company (PG&E) in 1998, and this system "has worked and functioned well in northern California."[1/] As the PD further states regarding southern California, the Commission found that firm tradable rights would "provide significant benefits to all utility customers by allowing customers access to firm tradable transmission rights on

1/ PD, p. 63.

SoCalGas' system"[2] while also holding in D.04-04-015 that "we fully support a market structure that includes firm tradable rights."[3]

FAR opponents claim that the record does not support the need for FAR, but this is untrue. The PD notes that gas flows currently are governed by the upstream FERC-regulated pipelines,[4] which was why the Commission decided to bring gas flows into southern California within this Commission's jurisdiction.[5] The PD further notes that, unless utility takeaway capacity is increased to meet upstream pipeline capacity – a very costly proposition – a system of capacity allocation is necessary and that the uncertainty over whose gas will flow under the existing all-interruptible allocation methods affects the procurement decisions of end-use customers who may not enter into longer-term contracts under the current system.[6]

FAR opponents point to the fact that there have been relatively few constraints recently as justifying preservation of the status quo, yet the evidence showed the difficulty that upstream shippers had in obtaining access to the SoCalGas system in 2003/2004 under the existing methods,[7] that these methods still create scheduling problems,[8] and that the existence of relatively few constraints recently has been largely due to fortunately mild weather.[9] While FAR opponents predict changing gas markets will mean fewer constraints, the popularity of receipt points has varied over the years[10] and additional LNG deliveries in Mexico and the Gulf Coast area, along with new upstream pipeline capacity, will likely make the Southern Zone the

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2/ *Id*. at 63-64, *citing* D.01-12-018, p. 2.

3/ *Id*. at 63, *citing* D.04-04-015, p. 56.

4/ *Id*. at 76.

5/ D.01-12-018, 2001 Cal. PUC LEXIS 1137 at *52-53 (Allowing the FERC-regulated pipeline tariffs to determine the priority of gas flowing into southern California is contrary to the public interest and would be "turning critical decision-making authority over to interstate pipelines and the FERC").

6/ PD, p. 66. Indeed, encouraging long-term contracts and "needed price stability" through firm tradable rights in southern California was specifically endorsed by the Commission in D.01-12-018 (D.01-12-018, *supra* note 5 at *2).

7/ SDG&E/SoCalGas/Watson, Tr. Vol. 8, p. 1172; PG&E/Graham, Tr. Vol. 14, p. 2203 (In both 2003 and 2004, PG&E's deliveries were reduced into the SoCalGas system more than 90 days).

8/ Mr. Boyer of OEHI described the problems OEHI had in resuming deliveries at Wheeler Ridge after just a single day of nondeliveries on April 27, 2006 (OEHI/Boyer, Exh. 52, p. 8) under the "use-it-or-lose-it" allocation method currently used in this zone.

9/ SDG&E/SoCalGas/Morrow, Tr. Vol. 4, p. 490; PG&E/Graham, Tr. Vol. 14, p. 2203.

10/ As Mr. Morrow testified, the Southern Zone was once the most popular point, the Topock point was the most popular a few years ago, and the Wheeler Ridge point is now the most popular (SDG&E/SoCalGas/Morrow, Tr. Vol. 4, p. 432; Tr. Vol. 5, p. 613).

area of constraint in the future.[11/] A system of FAR that determines gas flows based on firm, contractual rights under this Commission's jurisdiction will readily accommodate future market conditions unlike the current allocation methods.[12/]

FAR opponents claim that FAR will "devalue" upstream rights, yet do not explain why this is not the case in northern California, where gas flows are determined under Commission-regulated rights rather than upstream pipeline priorities. In fact, matching upstream and downstream rights will permit shippers to create a firm path from the basin to the burnertip, thus **enhancing** the value of the upstream rights. While FAR opponents claim that FAR discourage new upstream capacity (again failing to explain why this is not true in northern California), the assurance of firm deliveries into southern California for a period up to 15 years would allow shippers to subscribe to new upstream capacity with confidence that it will not become stranded.[13/]

Some argue that FAR are too "complex," yet again failing to explain how this is not true in northern California. The fact is that the parties likely to be interested in FAR are the larger, sophisticated parties while smaller noncore customers will likely opt for the "hassle free" option of buying gas at the liquid citygate market like on the PG&E system. The PD allows customers desiring FAR to get them while allowing those customers not wanting FAR to buy gas as they do now, but the status quo only prevents those wanting FAR from obtaining them.

FAR opponents claim that FAR will "fragment" the southern California gas market, but they do not claim – because they cannot – that this market will be illiquid. FAR will promote new supplies into southern California, thereby increasing gas-on-gas competition.[14/] Also, like in northern California, the gas market in southern California after FAR will likely create new

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11/ Watson/CMTA/IP/CCC/Beach, Tr. Vol. 9, pp. 1288-93, 1300-02. Inexplicitly, SCGC suggests that the addition of large amounts of LNG in Mexico might actually make the Southern Zone less popular in the future which completely defies logic and common sense.

12/ FAR opponents claim that these methods are tailored to meet the facts of those zones, but they are inferior allocation methods as the Commission recognized in rejecting them (D.01-12-018, *supra* note 5 at *50-52). As PG&E witness Mr. Graham put it, if upstream pipelines "all operated like the SoCal system, you'd never know whether any gas that was nominated out of a basin would ever show up … because of all the cuts along the way" (PG&E/Graham, Tr. Vol. 14, pp. 2164-65).

13/ As SCE stated, shippers subscribing to new capacity under the current system would be taking a "wild gamble" that their supplies will be delivered (SCE/Alexander, Tr. Vol. 15, p. 2355).

14/ This is evidenced by the fact that the "Joint Proposal" (JP) would have provided firm rights to new suppliers at new points. The problem with the JP alone was that it did not provide existing suppliers, or new suppliers at existing points, FAR into southern California. The PD resolved this problem by integrating the JP with a system of FAR.

pricing points at each of the three transmission zones, thus allowing customers to "shop around" rather than automatically pay the highest price of any gas delivered to southern California as they must today if they buy gas at the border.[15/]

Several parties criticized the reservation charge, claiming that it was not cost-based and that it would violate federal law. However, the reservation charge recovers a portion of the SDG&E/SoCalGas backbone transmission cost and the charge is not counter to federal law; the proposed tariffs show that FAR holders will transport gas on the SDG&E/SoCalGas transmission system.[16/] Several parties suggest that the "cure" is to unbundle the 5¢/dthd charge from transportation rates rather than credit FAR revenues as proposed by SDG&E/SoCalGas.[17/] SDG&E/SoCalGas do not oppose this if a balancing account recovers over- or undercollections so that they are not placed at risk for throughput.

With respect to the clarifications suggested by TURN and SE LNG on integrating the JP with FAR, SDG&E and SoCalGas agree that displacement capacity of a "funding party" will not be pro-rated within a transmission zone because FAR will not exceed the firm capacity in that zone.[18/] SDG&E and SoCalGas disagree, however, with TURN's suggestion that a party funding "expansion" capacity not pay both the cost of the new facilities and the reservation charge because the facilities cost might well be less than the reservation charge.[19/]

SDG&E and SoCalGas do not agree that shippers should decide whether displacement or expansion capacity is constructed. The PD properly finds that this is a matter for the Commission ultimately to determine, not the shipper or even the utility.[20/]

Finally, parties opposed to the peaking rate merely reargued the positions previously taken in their briefs. As SDG&E and SoCalGas have explained, and as multiple Commission

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15/ The opposition of Coral to FAR is thus fully explained because it receives the benefit under the current system of the highest-priced supply delivered into southern California no matter where it delivers its gas.

16/ SDG&E/SoCalGas/Smith, Tr. Vol. 8, p. 1201; SDG&E/SoCalGas/Schwecke, Exh. 15, Schedule No. G-RPA.

17/ SCGC claims that the SDG&E/SoCalGas FAR proposal would increase revenues by $72 million (assuming all receipt points are subscribed), but these revenues would be refunded to customers on a prospective basis so they would not increase "cash flow" as claimed by SCGC.

18/ Thus, SCGC's claim that there will be prorationing under the PD is incorrect.

19/ For example, the only difference between "displacement" and "expansion" capacity at the Center Road Station point is approximately $20 million of pipeline facilities.

20/ The PD properly finds that the there is likely no benefit from LNG developers building upstream facilities and deeding them to the utility. BHP states that this is a problem because the developer must provide funds in advance without interest, but this can be easily solved by progress payments.

decisions affirming the peaking rate demonstrate, these arguments lack merit and must be rejected. While Kern River/Questar suggest that the purpose of the peaking rate is to ensure that the utility rate design matches that of the competing interstate pipelines, the Commission has held that the purpose of the peaking rate is to discourage uneconomic bypass by "reflect[ing] the cost the customer imposes on the system when the customer takes peaking service," and to prevent unfair cost-shifting which "leav[es] core customers paying the tab for stranded capacity."[21/] The peaking rate has served for over a decade to successfully accomplish these objectives and should therefore be retained.

In conclusion, the Commission should retain the peaking rate and should adopt the PD with the modifications contained in Appendix "A" of the SDG&E/SoCalGas OC.

Respectfully submitted,

By: *____________/s/ David J. Gilmore________*

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21/ D.01-08-020, 2001 Cal. PUC LEXIS 572, pp. *48, 50, Findings of Fact Nos. 7, 20.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of the foregoing **REPLY COMMENTS OF SAN DIEGO GAS & ELECTRIC COMPANY (U 902 G) AND SOUTHERN CALIFORNIA GAS COMPANY (U 904 G)** on all parties of record in A.04-12-004 by electronic mail and by U.S. mail to those parties who have not provided an electronic address to the Commission.

Dated at Los Angeles, California, this 27th day of November, 2006.

/s/ Rose Mary Ruiz
Rose Mary Ruiz

CORP10/L/D/DGILMORE/SI-FAR/REPCOMM-11.27.06

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